

Message from the Executive Director

April 29, 2003 marked the 10th anniversary of the Missouri Gaming Commission. During the past decade, we have seen a remarkably dynamic evolution of commercial gaming enterprises in Missouri. Markets have changed, the products have changed, the venues have changed and the areas of regulatory focus have changed. However, one constant has maintained order throughout this turbulent decade – the Missouri Gaming Commission's fidelity to principle and its dedication to high standards for gaming licensees.

As you prepare for deliberations in the upcoming legislative session, there are three primary issues that merit special attention.

Technology and Its Impact on the Commission Workforce

The change in the way casinos operate and the way patrons gamble is having a substantial impact on the way the Commission regulates. We see ample evidence of the changes in casino operations and patron preferences by following the money. There has been a dramatic shift from table play to electronic gaming devices over the past ten years. In FY 1995 table game play represented nearly 46% of casino revenue. That percentage dwindled to less than 25% by FY 1998 and currently stands at less than 13%. Electronic gaming devices (EGDs) now dominate the casino floor.

The overwhelming shift toward EGDs leads to technology playing an increasingly important role in the way the industry operates and the way we regulate it. In the past two years, Missouri's casino floors have been completely reinvented through the implementation of "ticket-in ticket-out" (TITO) where bar-coded tickets are rapidly replacing metal tokens. In the coming months the Commission will have to evaluate wireless technology, comprehensive online metering systems, various technologies for converting currency into electronic cash and an array of technologies designed to speed up EGD software updates.

The Commission cannot stand still during this technological transformation. During the past three years, the Commission has added two highly trained EGD technicians and substantially increased technology training efforts. While these efforts have proven beneficial, they are not enough.

The Commission will be working with you to reinvent its workforce. The modern gaming regulator must have the tools necessary to analyze and decipher complex technological issues. They must be dedicated lifetime learners capable of constantly being retrained to handle new technologies.

This specialized workforce will not come cheap but experience has shown that not acquiring such talent is even more expensive. Over 60 percent of casino cheating theft involves EGDs and the trend is rising. We look forward to working with you to design the most efficient yet effective way to address this critical issue.

Taxes

As state governments throughout the country face fiscal crisis, it seems that among the more popular solutions has been dramatic increases in gaming taxes or the implementation of legalized gaming with exorbitant tax rates. Since these issues are typically fraught with controversy, few have been implemented. While a more detailed discussion of the impact of various tax policies is reserved for a section devoted to that topic on pages 9-11, it is important to note our assessment of Illinois' ill-advised tax policy decisions were correct.

Since the implementation of Illinois' two massive tax increases, gaming revenue in Illinois has continued to decline. Furthermore, there has been virtually no reinvestment in the state. If the current tax policies remain in place, Illinois facilities will deteriorate over time, resulting in a vastly inferior product and work environment



A handwritten signature in dark ink, appearing to read "K. P. M. S.", written in a cursive style.



for Illinois employees. Conversely, Missouri operators continue to reinvest in Missouri based on steady revenue growth and stable tax policy.

Although Indiana also adopted a graduated tax system, which the Commission staff believes is a deterrent to capital investment, the more modest Indiana tax increase is showing early success. Indiana combined a relatively modest tax increase with regulatory changes allowing the industry to offer a more consumer-friendly product.¹ Unlike the Illinois policy changes that resulted in gross revenue declines, the changes in Indiana created an environment producing a 12% increase in gross gaming revenue.

The Commission staff continues to believe a graduated tax system on gross gaming revenues deters capital investment and is bad economic policy. However, if combined with changes in statutory regulations that allow the industry to provide a more consumer-friendly product, there is ample evidence that Missouri casino operators could absorb a modest across the board tax increase.

Internet Gambling

While we would not classify Internet gambling as an issue that merits specific action this year, it is something policy makers should learn about and begin to analyze. There currently is no comprehensive Internet gambling policy in the United States. While it is widely proclaimed to be illegal, it is equally widespread.² One need only pick up a sports magazine or tune into a sports radio or television station to observe rampant advertising for hundreds of Internet gambling sites. Furthermore, a cursory poll of a local sports bar or college campus will expose dozens of individuals who acknowledge they gamble on the Internet.

What should concern state policy makers most about congressional debates over Internet policy over the past eight years is the federal government's lackluster record of accomplishment in formulating gambling policy.³ In order to protect Missouri's interests, the Commission advises state policy makers to carefully monitor federal Internet gambling legislation.

Conclusion

The path to the present has not been easy and has often been controversial. Still, the current state of legalized gaming in Missouri is good. Current Missouri casino operators have accepted Missouri's strict regulatory climate and are working hard to establish good compliance records. The operators have shown their commitment to the state by steadily reinvesting their profits in capital expansion projects.

In addition, Missouri citizens have shown widespread acceptance of casino gambling as a form of entertainment as evidenced by a recent examination of casino databases showing that 1.6 million Missourians have visited a casino in the past year. This represents 42% of the state's population over the age of 21. Perhaps more telling, one person in at least 47% of Missouri households has visited a casino in the past year.⁴

After ten years, the Commission has built a national reputation for its prudent evaluation of gaming markets, its thorough investigations, its ability to carefully weigh difficult and complex issues, its innovative approaches to dealing with problem gambling and its willingness to rapidly reinvent itself through organizational change.

The Commission and its staff appreciate the support they have received from the Governor's office and the General Assembly during the past decade. Although opinions of legalized gambling vary widely, Missouri's public officials have been steadfast in their support of strict regulation. We will persist in building upon the foundation you have helped us lay and hope we can work together to protect the state's interests as this industry continues to develop.

¹ See page 10 for a more detailed explanation of the Indiana tax and policy changes.

² Attorney General Jay Nixon is one of the few U.S. law enforcement officials to obtain a conviction for Internet gambling.



³ For critical analysis of the Indian Gaming Regulatory Act, see Donald L. Barlett and James B. Steele, *Wheel of Misfortune*, Time, December 16, 2002. Also see, Rand, Kathryn, *There are no Pequots on the Plains: Assessing the Success of Indian Gaming*, Chapman Law Review, Spring 2002; and Washburn, Kevin, *Recurring Problems in Indian Gaming*, Wyoming Law Review, 2001.

⁴ Democracy Data Inc., survey of Missouri casino databases conducted in 2003. Interestingly, the percentage jumps to 59% if we expand the definition of household to include all common addresses. We chose to use the more conservative 47% number, which uses households with a common address and a common last name.